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Banking and currency reform

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THE NATIONAL CITIZENS' LEAGUE

FOR THE PROMOTION OF A SOUND BANKING SYSTEM

BANKING AND CURRENCY REFORM

By

Hon. Franklin MacVeagh

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Banking and Currency Reform

An Address

Delivered before the Western Economic Society

By

Hon. Franklin Mac Veagh

Secretary of the Treasury

November 11, 1911

Distributed by

The National Citizens' League

For the Promotion of a Sound Banking System

223 West Jackson Boulevard

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BANKING AND CURRENCY REFORM

In this campaign for monetary legislation, emphasis should be laid upon its urgency. If the public takes an uncompromising attitude as to the urgency of the movement, the battle can be won this winter—and, unless it is won this winter, heaven only knows how long it will be drawn out. For it is one thing for Congress to deal with a matter which, though important, is not urgent; and it is quite another thing for it to deal with a matter which is both important and urgent. If Congress thinks there is plenty of time—if it thinks the matter is not actually pressing—it easily may think it no harm to delay, or even to postpone; while if Congress is convinced that present conditions are such that it is imperative they should be changed without further delay, then monetary legislation will be enacted this winter—for there is nothing now in sight to prevent it, except the feeling that it can still wait.

It is fortunate there is already such a wide-spread conviction of the immediate necessity of banking and currency reform. It is fortunate that there is so little disposition to quibble, and so much disposition to agree and push forward. Nevertheless, much depends upon extending, as far as possible, the public conviction that we must get the reform now. We must accent the public demand for immediate action.

Monetary reform has been before Congress for a long time; and the Monetary Commission was appointed to do the remaining work of investigation and formulation, in order that Congress might be prepared to act promptly when the report of its Commission should be made. And Congress has set a definite date for the report of the Commission. But those outside of Congress who feel that this legislation should be had now, must give to Congress the support of their unequivocal demand. If we shall go to our representatives without an uncompromising belief in the urgency of the legislation, we shall simply invite further delay and postponement.

For this winter's session will have other important matters before it; and Congress will be seriously engaged—barring, of course, the usual paralyzing effect of the shadow of a coming election. So that monetary legislation may not have a clear track or the right of way.

Of course, we have lived without this reform. But that merely means that we have been strong enough to endure. And we can still live with half-efficient banking facilities, and with the threat of panics hanging over us. But why on earth should we? Why shouldn't Congress give us relief?

It is not only economically and socially absurd, but extravagant and inefficient, to live under a banking and currency system which, in the most ordinary and quiet times, saturates everybody concerned with a sense of financial uncertainty—a condition that constantly hampers, not only the bankers themselves, but business in all its branches and forms. The banks are so isolated and so dependent upon their own immediate resources, and their assets are so rigid and lacking in liquid quality and so unavailable—compared with the situation of banks under a right system—that the individual banker is bound to be habitually apprehensive. This apprehension—this habitual looking forward, especially to the autumn—this customary wondering how the market is going to be one or two or three or four months hence—and this calculation as to how one's own bank is going to be fixed to meet situations and fluctuations that ought to be immaterial—are all incorporated into the very nerves of bankers, and more or less into the nerves of business men in general. It is always a question of foresight. It is always a question of the future.

This is the situation in the ordinary times. This is when the financial seas are as smooth as they ever are in this country. This is when the horizon is as clear and distant as it ever is under our present self-agitated conditions.

But these are "piping times of peace" compared to the convulsive periods—the periods of semi-panic, and the periods of gross and inhuman actual panic. The business world and the general social fabric can get on, after a fashion, under the ordinary disturbances which are chronic in our system. But when the great convulsions come, then the bottom drops out—then the financial structure of the nation temporarily goes to pieces and falls to the ground. Then appear those topsy-turvy periods of our non-social instincts, when the impulse to coöperation fades, and it is "the devil take the hindmost." The banks, having no one to look to for help, feel they must, as far as possible, take care of themselves. And, at exactly the time when banking facilities are most surely and imperatively needed, these facilities incline to almost absolutely withdraw themselves.

At the same time, it is true that these terrible panics—whose devastations are so strangely inexcusable, wanton and intolerable, and which our banking system is so completely unfitted to deal with—descend upon all the people of the nation by permission of the banking system itself. It is indeed not too much to say that this system, which is so helpless in the face of these panics, is responsible for them. And as long as we have the present banking and currency system, we shall have panics—and no longer. Does not this alone create a state of emergency? What doubt should there be of the urgency of this legislation? Why should it take another wasteful and degrading panic to impress Congress? Why cannot 1907—from which the people are still recovering—suffice? There are many other things of prime importance to be secured through monetary reform, but, if nothing were to be secured but emancipation from panics, there would be abundant imperative reasons for immediate action by Congress.

I know it is said by some that no banking and currency system would absolutely protect us against every form of panic at every time in the future. All admit, however, that, under such a system as we should now adopt, panics would be practically brought to an end, as they have been in the other great financial countries. If a country doesn't have a panic in a hundred years, it might be pardoned for thinking panics extinct—as many volcanoes are. And if England or France can prevent panics for a hundred years, so can we.

The truth about our present banking and currency system is that most of the large essentials of a right system are lacking. The banks are good, but the system is bad. For example, our currency circulation has no free

dom. It is almost bound hand and foot. It can scarcely move up and can scarcely move down.

Then, our reserves are even worse than our currency. We have reserves only when we do not need them. At the first sign of their being needed, they hide, and refuse to perform any function whatever. And all this because nobody has any confidence in the reserves and the reserves have no confidence in themselves. They have not a responsible or a respectable monetary characteristic! They are so cowardly that they run if you raise your finger!

There are other large deficiencies that I have not time to mention, which complete the helplessness of our system. On the other hand, we may congratulate ourselves that the remedy has become plain, simple and easy—and undisputed. It only remains for Congress to put it into law.

So far as the Treasury Department is concerned, though the proposed remedy will save considerably in its expenses and may give it a considerable income from the establishment of the National Reserve Association, that Association is not proposed for its benefit. It is proposed for the benefit of the people, through the completion and development of the banking functions of the nation. The advantages to the Government are of little moment compared to the influence which this reform will have upon the people, by establishing a trustworthy banking system, guaranteed to go the year round, and year in and out—guaranteed not to stop when it is most needed. This is a people's measure, and not a Government measure. And it is as a people's movement that it can secure legislation of the right sort, and at once.

I say legislation of the right sort, because it would be no answer to the demand for reform if the plan to be proposed to Congress, through the Monetary Commission, should be changed fundamentally.

This plan as it now stands, or as it will stand when it is proposed to Congress, may be called, as to its essentials, the deliberate, seasoned and experienced work, not only of the Monetary Commission, but of the nation itself. Under the direction of the Commission, many men contributed toward it, studying all the appropriate knowledge of the world in order to work out our prob-

lems, even before the Commission's chairman organized and formulated his celebrated tentative proposal.

And then, with remarkable practical wisdom, the Senator placed his tentative plan before the people of the country, inviting their consideration and amendment. This judicious course met with such wide-spread and almost universal response from the press and the public that the final making of the plan—the final formation of the scheme—was promptly nationalized. And such capital work resulted, either of seasoned approval and commendation or of suggestion and amendment, that the basic plan, as it will be proposed to Congress, may well be called the product of the national mind. If this plan shall be essentially adopted by Congress, more of the thought of the whole nation will have gone to form the legislation than has gone toward the construction of any other legislation in recent times. The bankers, as individuals and as organizations, the economists and publicists, the entire press of the country—daily, weekly and monthly—and, of late, the business men throughout the country, organized and unorganized, and large numbers of intelligent men and women who belong to none of these classes, have given their minds to this important subject to a degree scarcely anyone would have thought possible. That a monetary proposition, with its technicalities and complexities, should have become a live interest of such large numbers of people is astonishing.

This nationalizing of the proposal that will be made to Congress—this keen recognition that the reform must not only be approved by the nation, but be essentially constructed by it—accents the acumen and wisdom of the Monetary Commission. For it is evident that the last thing desired by Senator Aldrich and the Commission was that this great reform should seem a committee proposition. And so the final construction of the plan has been democratized—has been made the interest and affair of everybody. That was the right way to build up and carry forward this movement. The movement must be carried on the shoulders of large numbers of the people of every section of the country and of all shades of politics.

The plan as it stands today is a wonderfully good one. It provides almost conclusively all the banking

facilities that the business of the country needs and lacks; and it protects itself nearly conclusively from all the dangers that any one, so far, has apprehended.

The objection to a central bank is answered. For it is not a central bank that is proposed. Of course, the Reserve Association will perform some of the work of a bank. It will receive deposits and pay checks. It will issue currency. It will buy and sell gold. It will buy and sell exchange. And it will loan money. But these things don't make it a bank in any sense in which a central bank is objected to. In the first place, it will not be privately owned, as a central bank would be. It will not be a competitor of the banks, as a central bank would be. It will not accept general deposits, as a central bank would, but only deposits of the Government and of the banks which are its owners. It will make loans only to the banks. It will not be run to make money, as central banks are. It will be organized exclusively for service, and not for profit. But what, then, will it be if it will not be a bank? It will be an agency of the banks. It will be an organization to perform certain functions for the banks which, unorganized, they cannot perform—functions which are nevertheless wholly necessary if the banks are to perform their part in the conduct of the business of the country continuously and adequately. It will be an agency of the general nature of a clearing house, though immensely broader and more useful.

I do not for a moment wish to minimize the importance of the Reserve Association. I rather wish to magnify it. It will be a great power and influence in our national business life. It will do for the country's monetary life all that the central banks of other countries do so effectively, and more; but it will have none of the features of a central bank which our people object to.

Some think the Reserve Association a centralizing proposition—that it is proposed to organize an institution for the centralization of the banking power. That is an error, of course. Neither the purpose nor the effect is centralization. The purpose and effect is simply organization and coöperation. By a wonderfully simple arrangement, the unorganized, and at times disorganized, banking and currency system is made a system organized for all sorts of times against all sorts of

emergencies and exigencies. It isn't proposed to centralize. It is simply proposed to organize and coöperate.

The plan is to shut the door for all the future against an irresponsible money power. One of the most significant features of this plan is the certainty that a purely democratic monetary control will be instituted which will anticipate a centralization of financial power in the hands of a few that is becoming as inevitable, under present conditions, as the rising of the sun. Unless this legislation shall pass, we are bound to have this threatened centralization as a plain result of evolution. It will be the normal and inevitable outgrowth of our present system. There must be some sort of organization of our banking and currency system. And if the right to organize our finances is not given to all the bankers, then it will be taken, by default, by a few strong men, without legislation and outside of Government supervision. If we don't provide a legally-organized monetary democracy, we shall have to accept a self-organized monetary oligarchy.

But notwithstanding my cordial opinion of the tentative plan of the Monetary Commission as it now stands, I feel there are one or two important matters still to be considered.

In the first place, I think no disabilities or inequalities of the national banks, as compared with the state banks, should be continued. I have from the beginning been strongly in favor of making this new organization of banks open to all state banks—whether commercial banks, trust companies or savings banks. And I am glad this is now a part of the plan. All state banks may participate equally with national banks. But I have been equally of the opinion that our present laws handicap national banks unnecessarily, to the unfair advantage of the state banks. The business of a trust company is most legitimate banking. The business of a savings bank is of the highest usefulness and propriety. And if these different forms of banking are so legitimate and useful, then why should national banks be excluded from this profitable business? We now propose to put the state banks on a par with the national banks. I am anxious to put the state banks on a par with the national banks, but I object to putting them above par.

I am glad that the latest revision of the tentative plan includes the right of national banks to do savings-bank business upon an equal footing with the state banks. And while there may be more difficulties to overcome in bringing the trust business within the privileges of the national banks, there should be found some way to overcome them. It is said a trust-company business cannot be done in a state except under a state charter. If that is final, and there can be no way except to give to the national banks the explicit right to organize a state trust company, as a large number of the national banks have already done, then I should give that right, expressed and explicit—making indubitable a privilege which now depends upon legal interpretation.

I believe the trust-company function should be pronounced by federal law to belong to the national bank, precisely as it is allowed by state law to belong to the state bank, in order that all legitimate banking functions shall be integral parts of every bank desiring to adopt them. And while it would unquestionably be better to have each bank, including all its functions, under the supervision of one government authority—either federal or state—I would place a bank under a divided government authority and supervision, if that becomes necessary, in order to secure complete equality between banks of federal origin and banks of state origin, and to discourage the growth of anything resembling exclusiveness or monopoly in any form of banking. This division of government supervision would be only a formal concession to obstacles of the state laws; and while there would be the semblance of two banks, in fact, and in the intent and purpose of the law, there would be but one bank; and there would therefore be no question of separate ownership involved, and no question of the ownership of stock in one independent bank by another independent bank.

To my mind, it is of the greatest importance that we should not start out in a new banking era with the old inequalities existing between the national and state banks. The national banking system cannot be expected to maintain itself against the state system, if the inequalities are all removed as to the state banks and are not all removed as to the national banks. It is desirable that all our banks shall eventually be of one system, and

that the national system; but, unless the national banks have money-making facilities on a par with the state banks, it will be the state system that will survive and the national system that will die out.

There is another very important matter which must be dealt with. And my own opinion is that it should be dealt with in the Monetary Commission's report. Otherwise, Congress, I am sure, will deal with it on its own initiative. I refer to the right of a bank to hold stock in another bank, either directly or indirectly. It is my opinion—and I believe it will be the opinion of Congress—that the holding of shares in another bank by a bank that is a member of the National Reserve Association, should be prohibited; and that this prohibition should be made to apply, not only to the corporate action of the bank, but to action by any substitute method accomplishing the same purpose.

I do not mean, of course, the prohibition of the merely formal holding of shares by a national bank in a trust company that may be recognized by the federal law itself as an integral part of the national bank, and whose shares are made formally separate only to conform to the peculiarities of the state law. Such holding would in no real sense constitute an ownership by one bank of the stock of another bank.

I favor all legitimate opportunities for every individual bank; but I feel sure that American conditions are permanently opposed to any semblance of branch banking and to any concentration of bank ownership and control. And I feel that the proposed new monetary system will be prejudiced in Congress and in the public mind unless provision is made against this ownership of bank stock.

Finally, I believe that the national banks and all banks should be treated in this new law in the most liberal and enlightened manner, with a view to a broad and healthy banking development, both national and international. I would give the banks every facility and every opportunity that is indicated by our own experience, or the approved experience of the world. The banks of the nation are of vast consequence to our domestic business; and under the proposed system they will become of far greater domestic usefulness. But a sufficient number of them must also become more and

more closely related to our foreign business—here and in foreign countries. We must have national banking; and we must have international banking. And this is the time to see to it that every legitimate right, privilege, function and opportunity is given avowedly and unequivocally to all our banks. The tentative plan of the Monetary Commission, as it now stands, has considerably developed along this line; but I am by no means sure that it has gone as far as it can. At any rate, we should see to it now—by one means or another—that nothing is left undone to enable our banks to become in all respects competent to conduct, on the highest and broadest principles of banking, our people's finances at home and abroad. A bank should be limited, strictly and exclusively, to banking; but that limit is enough.

And now, before concluding, let me refer to the threat of danger to monetary reform that lurks in the possibility that it may be made a partisan issue. I think we may at least be reasonably hopeful about that. Certainly it will be very unwise practical politics for any party or faction to imperil the reform by the introduction of this familiar form of embarrassment, for a sturdy conviction is general that this great business necessity is entitled, after all its painful years of waiting, to disinterested treatment on the basis of its economic merits. The question is entirely detached and remote from party considerations. It is purely a business question, and is wholly in the realm of non-political economics. It wouldn't know a party or a politician if it should meet one on the street. And if any of our party people, in Congress or out of Congress, wishes to take it out of any of his opponents, he should choose some other ground than ours to do his fighting on.

The Administration is committed, by the President's own clear and cordial statements, both to a sincere interest in banking and currency reform and to the policy of treating it as a non-partisan issue. And Congress, by appointing a non-partisan commission, has, I hope, indicated its belief that the great issue should be protected from partisan entanglements.

Such non-partisan legislation as that would be a great achievement for Congress and its leaders and a great honor for the nation. Let us hope, then, that at last a great economic question can be kept out of politics.

THE OBJECTS TO BE ATTAINED

The National Citizens' League for the Promotion of a Sound Banking System, under whose auspices this address is published, has no bill of its own; it is open to suggestions from any source. But it presents the following objects to be attained, which it hopes to have incorporated into law:

1. Coöperation, not dominant centralization, of all banks by an evolution out of our clearing-house experience.
2. Protection of the credit system of the country from the domination of any group of financial or political interests.
3. Independence of the individual banks, national or state, and uniform treatment in discounts and rates to all banks, large or small.
4. Provision for making liquid the sound commercial paper of all the banks, either in the form of credits or banknotes redeemable in gold or lawful money.
5. Elasticity of currency and credit in times of seasonal demands and stringencies, with full protection against over-expansion.
6. Legalization of acceptances of time bills of exchange, in order to create a discount market at home and abroad.
7. The organization of better banking facilities with other countries, to aid in the extension of our foreign trade.

You may become a member of the League upon payment of one dollar. The proceeds of this membership fee will be devoted exclusively toward defraying the expenses of the campaign. All remittances should be made to

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